PACIFIC PETROLEUMS LTD. / Annual Report 1968

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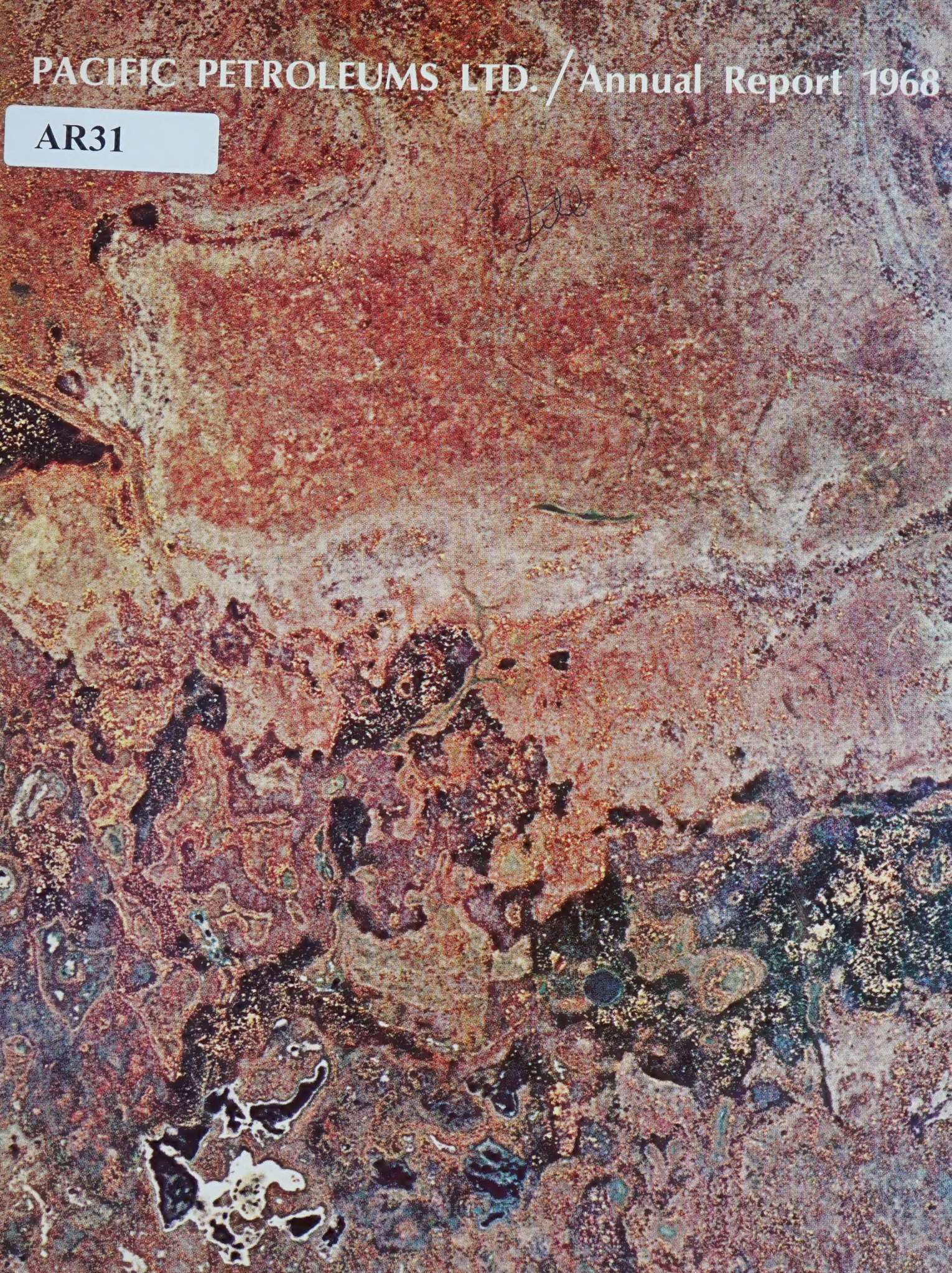


The Cover

This high-altitude photograph shows an expanse of the Northwest Territories, where Pacific land holdings cover more than 6,000,000 acres. The terrain is typical of most of Canada's Far North. Since there is little or no vegetation at these latitudes, outcrops and structures are so exposed that the most promising areas for intensive ground exploration can often be selected by studying this type of aerial survey photograph.

Near the bottom of this photo, the darker areas are Middle Devonian outcrops, dotted by white patches of salt and gypsum from the formation. The interest of a petroleum explorer would focus on the flat-lying areas above. It is here that the formation plunges downward to create geologic conditions in which oil and gas are encountered.

Pacific 66 Plaza – Concept and Reality

One year ago, the site was just being cleared for Pacific 66 Plaza and the architect's drawing at the left was published in the Annual Report as a concept of the Company's proposed office building in Calgary. The picture at the right, taken recently, indicates the year's progress toward completion of the 22-storey structure. The building, owned by Maxwell Cummings & Sons of Montreal, will be ready for occupancy on schedule in September, 1969. Pacific will initially lease the top 16 floors with options to occupy additional floors as its space requirements grow.

PACIFIC PETROLEUMS LTD.

Incorporated Under the Laws of the Province of British Columbia

Board of Directors

John Anderson
General Counsel and Secretary
Pacific Petroleums Ltd., Calgary, Alberta

John Getgood
Vice-President Sales, Phillips Petroleum Company
Bartlesville, Oklahoma

Kelly H. Gibson
President, Pacific Petroleums Ltd., Calgary, Alberta

John M. Houchin
President, Phillips Petroleum Company
Bartlesville, Oklahoma

Arthur F. Mayne
Financial Consultant, Montreal, Quebec

Edwin C. McDonald
Chairman of the Board
Royal Bank of Canada Trust Company
New York, N.Y.

Frank M. McMahon
Chairman of the Board
Westcoast Transmission Company Limited
Vancouver, British Columbia

L. Merrill Rasmussen
Senior Vice-President
Pacific Petroleums Ltd., Calgary, Alberta

Colin Webster
Industrialist, Montreal, Quebec

Norman R. Whittall
Industrialist, Vancouver, British Columbia

Officers and Senior Management

Kelly H. Gibson
President and Chief Executive Officer

L. Merrill Rasmussen
Senior Vice-President

W. H. Tye
Vice-President and Treasurer

John Anderson
General Counsel and Secretary

Rex A. Harfield
Vice-President Sales

A. M. McIntosh
Vice-President Production

A. Bryce Cameron
Director of Exploration

R. H. Stone
Manager Manufacturing

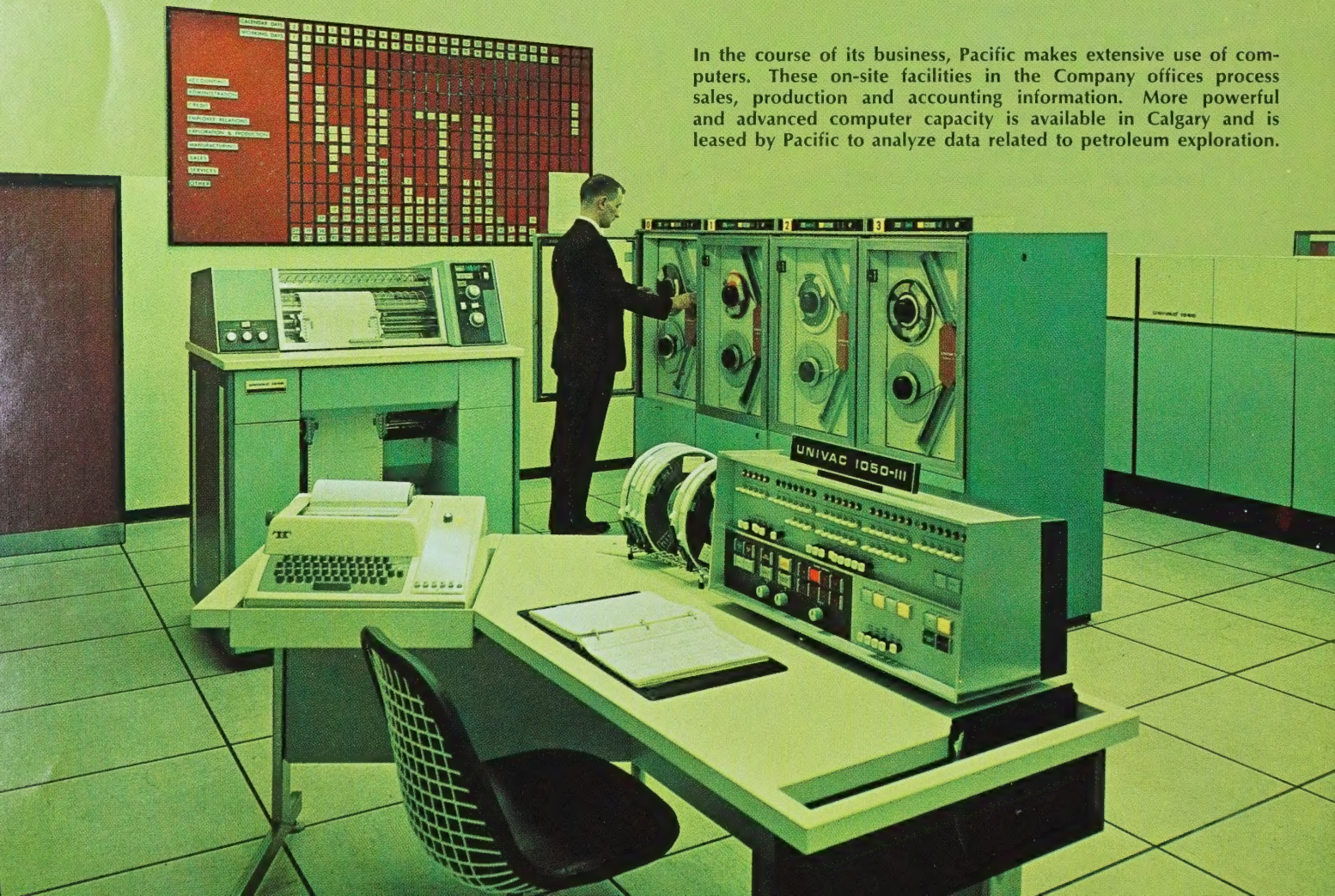
William Sidjak
Manager Special Projects

30th Annual Meeting — First in Eastern Canada

The Annual General Meeting of the Shareholders of Pacific Petroleums Ltd. will be held at the Royal York Hotel, Toronto, Ontario, on April 10, 1969, at 10:00 a.m. This year's meeting is the 30th Annual Meeting of the Company and it is the first to be scheduled in Eastern Canada. Approximately 65% of Pacific's Canadian shareholders reside in the Provinces of Ontario and Quebec, with the largest concentration in the City of Toronto. As this year's site will be more convenient to these Eastern Canadian shareholders, it is hoped that many of them will attend and participate in the business of the Annual Meeting.

THE YEAR IN BRIEF

	1968	1967	% INCREASE
FINANCIAL			
Total Revenues	$ 78,410,000	$ 72,278,000	8.5
Cash Generated	29,029,000	26,626,000	9.0
Per Share	1.39	1.27	
Net Profit from Operations	13,207,000	11,010,000	20.0
Per Share	.63	.53	
Cash Dividend	5,235,000	3,135,000	
Per Share	.25	.15	
Shareholders' Equity	253,272,000	244,019,000	3.8
Per Share	12.10	11.67	
Number of Shareholders	42,673	41,128	3.8
Shares Outstanding	20,938,573	20,911,429	
OPERATIONS			
Oil, Liquids (bbls/day)	42,170	40,711	3.6
Natural Gas (Mcf/day)	285,000	259,000	10.0
Refined Product Sales (M/gals)			
Gasoline & Distillates	107,531	89,657	19.9
Natural Gas Liquids	257,103	261,963	(1.9)



In the course of its business, Pacific makes extensive use of computers. These on-site facilities in the Company offices process sales, production and accounting information. More powerful and advanced computer capacity is available in Calgary and is leased by Pacific to analyze data related to petroleum exploration.

KELLY H. GIBSON
President

To The Shareholders

The Company's net operating profit showed a 20% increase in 1968, rising to $13,207,000 or 63c per share compared to $11,010,000 or 53c per share in the previous year. This marked the seventh consecutive year in which a growth rate of 20% or more has been maintained in Pacific's earnings.

In the light of the increasing profit and the various other favourable results detailed throughout this Report, the Board of Directors voted to increase the dividend payment.

An outstanding event of the year's operations was a petroleum discovery by the Company in the Ricinus-Strachan area of west central Alberta. Because of pending auctions of Government land in the vicinity, full geological details of this discovery are not being disclosed at present. It can be stated, however, that Pacific and associates have completed successful exploratory wells in a highly productive formation over a distance of ten miles. Further drilling is now in progress to determine the full magnitude of this promising discovery. Pacific holds 45% to 50% interests in nearly 95,000 acres along the Ricinus-Strachan trend and the establishment of major reserves in the area will materially benefit the Company's future production and revenues.

Another development of much significance to the Company was the announced discovery of large reserves of crude oil at Prudhoe Bay, on the Arctic Slope of Alaska. The Alaska discovery has greatly strengthened confidence that vast petroleum deposits exist in the similar geological setting of the Canadian Arctic where Pacific holds interests in more than 7.7 million acres.

During the year, the existing Exploration and Production Department was divided into two Departments. Vice-President A. M. McIntosh retained charge of Production and A. Bryce Cameron was engaged as Director of Exploration. Mr. Cameron is a widely recognized authority on the geology of the Canadian Arctic.

The outlook for the current year can be viewed with optimism in all areas of Company operations. To date in 1969, market demand for Canadian crude oil is 10% greater than a year ago. Natural gas sales continue to rise substantially in both domestic and export markets and because of increased pipeline throughput gas liquids production will reach capacity levels at Pacific's Empress processing plant. With these various favourable elements, plus the steady and successful expansion of the Pacific 66 marketing system, greater revenues and earnings can be anticipated in 1969.

Two new members, John Anderson of Calgary and Arthur F. Mayne of Montreal, were elected to the Board, filling vacancies created by retirements. Mr. Anderson, a member of the Bar in British Columbia, Alberta and Saskatchewan, has practiced in the Canadian petroleum industry for the past 20 years, and is General Counsel and Secretary of the Company. Mr. Mayne, former Executive Vice-President of The Royal Bank of Canada, is a Financial Consultant and a Director of many leading corporations.

The Directors appreciate the excellent work of employees and the loyal support of customers and shareholders, all of which contributed in large measure to the continued success of the Company.

For the Board of Directors

Kelly Gibson

President

Financial Review

Continuing a seven-year trend, the Company recorded substantial growth in net profit during 1968. Consolidated net profit from operations was $13,207,282 or 63c per share, an increase of 20% over the $11,010,289 or 53c per share in 1967.

In addition to increased earnings from operations, a non-recurring profit of $923,096 was realized on the sale of a share investment. Including proceeds of this transaction, the net profit for 1968 was $14,130,378 or 67c per share.

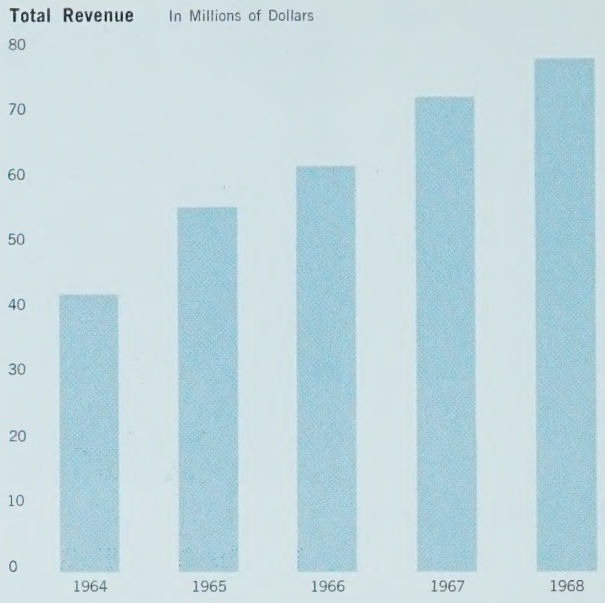
Cash generated from operations during 1968 was $29,028,740 or $1.39 per share, a 9% increase over the previous year.

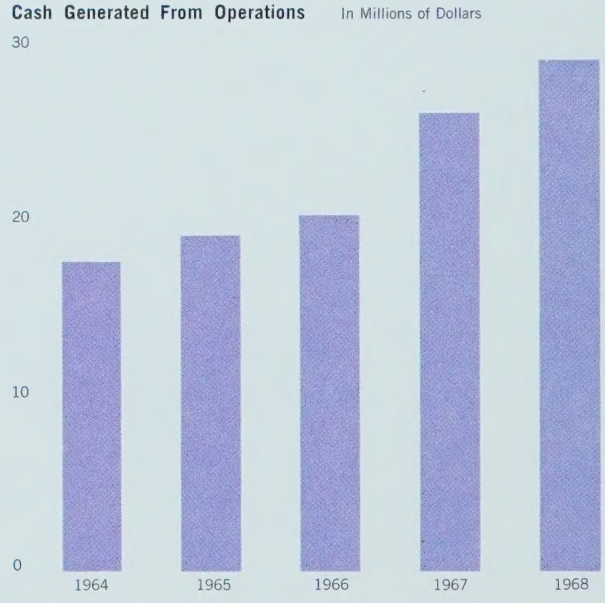
Revenues: The record profit for 1968 was achieved on a base of consolidated revenues of $78,410,356, representing an increase of 8.5% over the comparable 1967 figure.

The increased revenues last year resulted from gains in all phases of operations with the exception of propane sales which declined slightly because of a temporary market surplus and resultant weakening of prices. Sales of refined products continued to account for more than half (52%) of the Company's total sales revenue while crude oil sales accounted for 28% and natural gas for 20%.

Also included in consolidated revenues was interest and investment income which totalled $1,182,152 last year. This was a substantial increase over the previous year's total of $727,123. The main investment income was the cash dividend totalling $861,356 received by the Company on its share holdings in Westcoast Transmission Company Limited.

Expenses: Cash operating expenses increased during the year by $3,729,577 to $49,381,616. Half of the increase was directly attributable to the expenses involved in purchases of product, merchandise and supplies for resale in the Company's expanding marketing operations. It is noteworthy that, despite the continuing inflation of material and labour costs, the cash operating expense ratio of 63c per revenue dollar was maintained at the same level as in 1967.



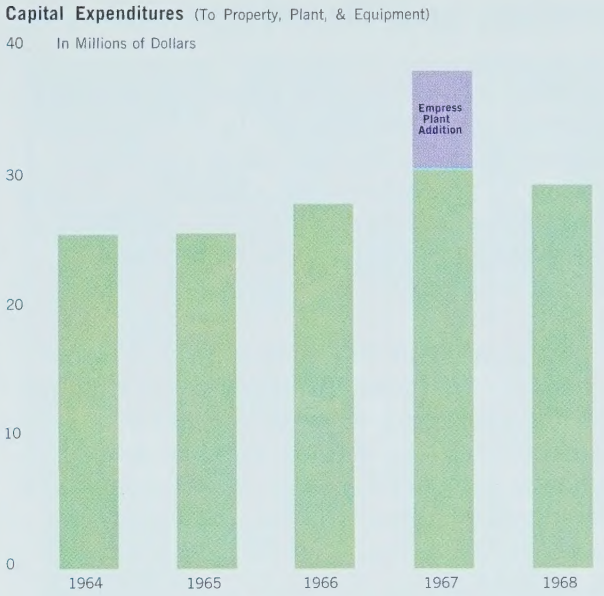


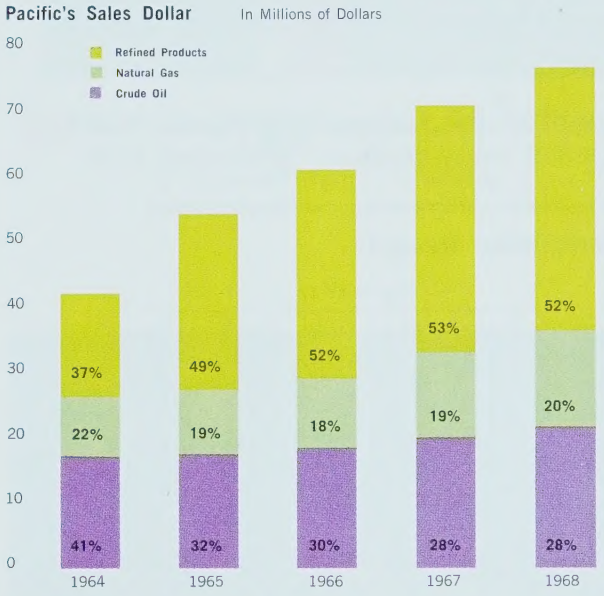
Cash Flow: Total funds introduced into the Company's business during 1968 amounted to $42,804,226 and funds expended during the year totalled $43,881,054. The inflowing cash included $29,028,740 generated from operations and $2,013,268 from the sale of investments. Other capital was provided by long term bank borrowings of $9,604,085 plus funds received through the disposal of property, plant and equipment in the normal course of business. The balance of $1,076,828 required to meet expenditures was obtained out of working capital. At the year-end, remaining working capital was $7,398,319, a level considered consistent with the Company's operations.

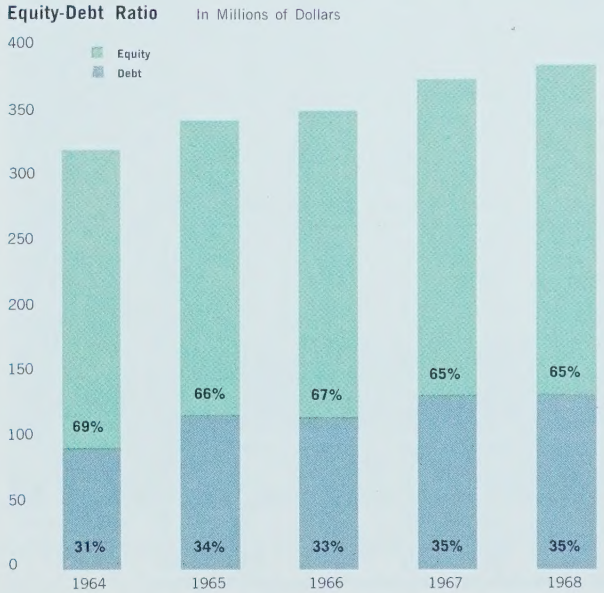
During the year, the Company committed $29,727,916 to capital expenditures with the principal outlays being made for oil and gas exploration and development. Substantial funds were also expended for additional outlets in Pacific's retail and wholesale marketing system.

Dividend payments of 25c per share on Pacific's common stock required $5,234,633. The sum of $1,698,500 was expended for investment purchases which are discussed in detail on Page 11 of this report.

Income Taxes: For Canadian Income Tax purposes the Company and its principal subsidiaries are entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation) in amounts which may exceed the related depletion and depreciation provisions reflected in the financial statements. If such expenditures exceed the taxable income for the year, the excess may be carried forward to be applied against taxable income of future years. At the year end the companies have accumulated deductible expenditures in excess of $106,000,000 applicable to drilling, exploration and lease acquisitions and an unclaimed balance of $73,000,000 of depreciable fixed assets, which augmented by future expenditures, will be sufficient to maintain a non-taxable position with respect to Federal income taxes for many years. However, certain provincial and foreign income taxes payable by the Company and its subsidiaries in respect of 1968 income have been provided in the accounts.







Exploration and Development

The Company carried out an extensive program of exploration and development in 1968. Expenditures of $21,092,500 were committed in this area of operations. In addition to drilling costs, this figure includes outlays for geophysical work, land acquisitions, secondary recovery installations and other production facilities.

Pacific participated in the drilling of 136 gross wells in 1968. Of these, 50 were oil producers, 45 were gas wells and 41 were dry holes, a success ratio of 70%. Among the 136 wells drilled during the year, 50 were exploratory wells. These wildcats resulted in five discoveries of oil and 13 discoveries of natural gas, a success ratio of 36%. The results achieved by Pacific in all categories of drilling were above the average attained by the Canadian industry as a whole.

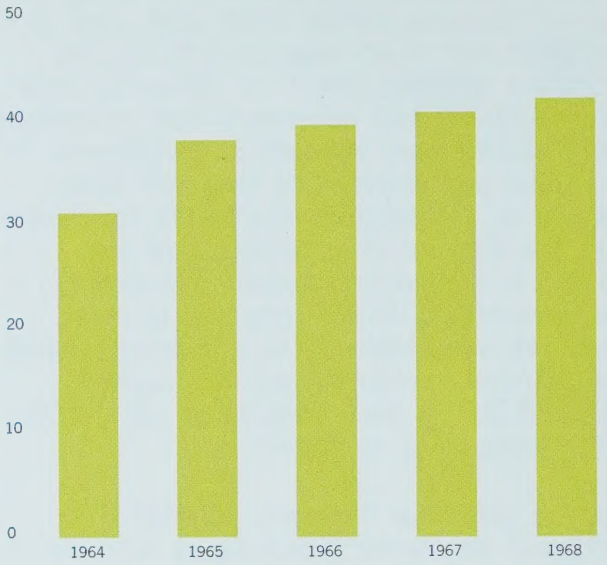
As a result of the successful exploration and development work, crude oil production from

Well Completion Record

	Exploratory				
Gross Wells	1964	1965	1966	1967	1968
Oil	3	12	5	8	5
Natural Gas	3	7	17	7	13
Dry Holes	30	40	45	23	32
Total	36	59	67	38	50
Net Wells					
Oil	1	5	2	5	3
Natural Gas	3	2	9	5	8
Dry Holes	12	18	24	13	22
Total	16	25	35	23	33

	Development				
Gross Wells	1964	1965	1966	1967	1968
Oil	89	104	89	43	45
Natural Gas	23	27	47	34	32
Dry Holes	12	23	8	17	9
Total	124	154	144	94	86
Net Wells					
Oil	26	26	29	22	33
Natural Gas	7	7	22	13	11
Dry Holes	3	7	3	9	4
Total	36	40	54	44	48

Oil and Liquids Production In Thousands of Barrels Per Day



Natural Gas Production In Millions of Cubic Feet Per Day

Pacific's Canadian properties increased last year by approximately 1,500 barrels per day, the largest annual increment attained by the Company in recent years. A 10% gain was recorded in natural gas production, raising daily average sales to 285 million cubic feet.

Major Discovery: The most significant discovery made by the Company last year was in the Ricinus-Strachan area of Alberta which is located about 80 miles northwest of Calgary, in the foothills of the Rocky Mountains. Pacific has interests of 45% to 50% in approximately 95,000 gross acres throughout this general area (see map). The initial discovery well in the Ricinus area was drilled on a 30,000-acre block of 50% Pacific interest land. After completion of the first well, two more successful exploratory tests were drilled on 50% Pacific acreage several miles to the north and to the south of the discovery site.

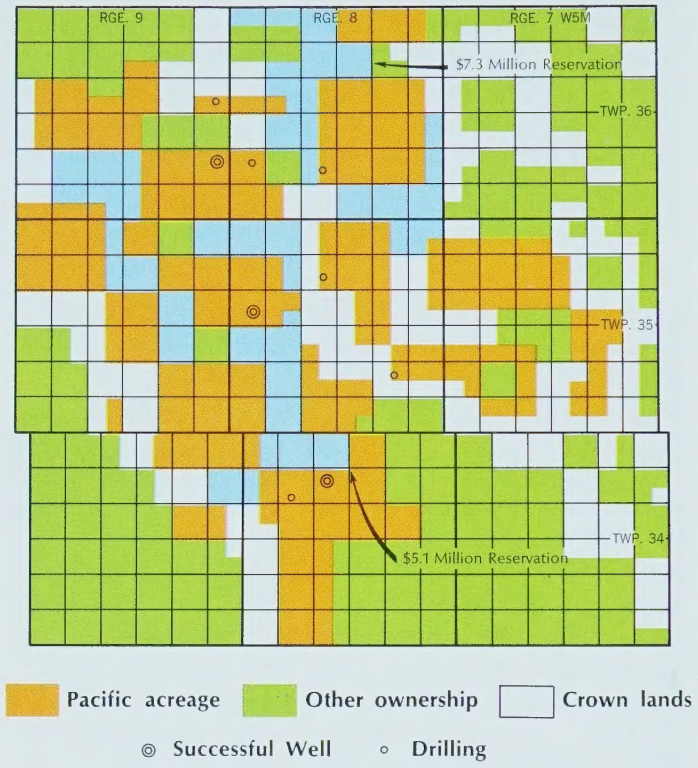
Details of the Ricinus drilling successes are not being divulged at the present time. Because there are numerous blocks of Government-owned acreage to be auctioned at forthcoming land sales, premature disclosure of geological data would not be in the best interest of the Company.

Exploratory activity has greatly intensified throughout the Ricinus-Strachan area and the bidding for acreage in that locality has risen to record levels. In December, 1968, an all-time high price of $5,101,000 was paid for a Ricinus drilling reservation. This record was surpassed only a few weeks later when a bonus of $7,323,000 was paid in January of this year for another reservation in the Strachan district.

Pacific also participated in recent land sales and succeeded in acquiring 50% interest in an additional 14,400 acres in this area. Six wells are currently drilling on Company acreage in the Ricinus-Strachan area and an active exploration and development program will be continued there in coming months.

Other significant drilling operations in 1968 were centered in the Whitecourt area of central Alberta where a major gas discovery was made by the Company a year ago. Four additional

Map of Ricinus-Strachan Area



This is one of six rigs currently drilling additional exploratory wells on Pacific acreage in the Ricinus-Strachan area of Alberta.

wells were drilled in this area and the perimeter and potential of the Whitecourt field were considerably enlarged. Pacific holds 100% interest in three of the new wells and 50% interest in the fourth. Ten wells have now been completed on Pacific's Whitecourt acreage and will go into production when a pipeline extension and gas processing plant are completed later this year.

Land: Pacific's land holdings were increased last year by 2,426,000 net acres. At the year-end, Company properties consisted of 16,369,999 gross acres and 10,408,114 net acres.

All the major acquisitions in 1968 were in the far northern regions of Canada, some on the mainland of the Northwest Territories and the others in the Arctic Islands. The new mainland properties, which total 158,894 net acres, are situated at Trainor Lake and Cormack Lake and lie directly north of the region in British Columbia where Pacific and other companies have established major gas reserves. The acquisitions in the Arctic Islands consist of 2,573,093 net acres in the Norwegian Bay and Cameron-Helena areas. Like most of Pacific's Arctic properties, this acreage is in the Sverdrup Basin, the prime exploration area in the Canadian Arctic.

Mining Exploration: In association with several major mining firms, Pacific participated last year in various mineral exploration projects. None of these ventures led to a commercial ore discovery in 1968, but results obtained warrant continuation of exploratory work on a number of properties in the year ahead.

One of the Company's prospecting projects last year was in the Elliot Lake uranium-producing area where a diamond drilling program was undertaken on a spread of more than 500 claims. A 3,000-foot drill hole was completed in the western portion of the property without disclosing uraniferous ore. A second hole is now drilling on the eastern claims.

Pacific also is currently engaged in evaluation of two copper prospects in British Columbia, of potentially commercial lead-zinc deposits in the Yukon Territory, and of uranium showings in northern Saskatchewan.

Much of the exploratory work to be carried out on Pacific's northern acreage this year will be done in the central basin of the Mackenzie River in the Northwest Territories. A spread of the Company's acreage along the river is seen in the top photo taken in the Camsell Bend area. A markedly different type of terrain is shown in the second picture, which was taken farther north towards the mouth of the Mackenzie where its delta forms a vast expanse of muskeg and small lakes. The bottom picture shows an outcrop of oil-bearing Cretaceous shale northeast of the Mackenzie Valley. It is believed that this formation dips westward beneath the Mackenzie Basin and it will be a primary objective of exploration work in that area.

Sales

Exceptional growth was recorded in the Company's retail gasoline sales operations in the past year but it was offset to some extent by temporarily unfavourable conditions in the market for propane. Total sales revenue from refined products in 1968 was $40,502,000, an 8% increase over the previous year. Sales volumes were 4% greater than in 1967.

Retail sales through the Pacific 66 marketing system showed a gain of more than 40% over 1967. The net addition of 27 retail outlets, the maturing of stations established in previous years, and the continued expansion of the Pacific 66 credit card system contributed to this growth. The circulation of Pacific credit cards increased 38% and sales to credit card holders rose 52% during the year.

Stability in retail gasoline selling prices prevailed throughout 1968 in all the Company's marketing areas and this improved the profitability of retail sales operations.

N.G.L. Market: In the first nine months of 1968, the propane market was depressed by a product surplus and a resultant softening of prices and demand. While there was evidence that demand and prices were improving in the closing months of the year, the result of the earlier downtrend was that Pacific's total sales of natural gas liquids showed a 3% decline at the year-end.

Although the unfavourable market conditions were general throughout the natural gas liquids industry, their only effect on the Company was on propane sales. Pacific's total production of butanes and natural gasoline is contracted for sale on a long-term basis and, under these contractual arrangements, the volume of sales and the prices realized for these products were slightly higher than in 1967.

Pacific continued to expand its share of the Canadian market for polyolefin resins with an increase of 30% over 1967 sales. Marlex, the patented brand of polyolefin resins which the Company is licensed to import and distribute in Canada, is now sold in six provinces.

In expanding the Pacific 66 retail marketing system, the Company is developing a variety of distinctive outlets such as carwashes, truckstops and restaurants at strategic highway and urban locations. This is a service station–restaurant complex recently opened by the Company near Red Deer, Alberta.

Pacific continues to stress a Western theme in its retail advertising. This theme was promoted in 1968 with this giant 21-foot cowboy, Pacific Pete, who appeared at service station openings, the Calgary Stampede and other public events. Here Pacific Pete dominates Calgary's Mall during the United Appeal Campaign.

Manufacturing

Major expansions were completed during the past year in the Company's refinery at Taylor, British Columbia, and in the Empress gas processing plant. With these added facilities on stream, record production volumes were achieved by the Manufacturing Department.

The average daily throughput of the Empress plant for 1968 was 1.2 billion cubic feet per day, an increase of 185 million feet per day over the previous year. A new record maximum day throughput of 1.7 billion cubic feet was achieved at the Empress plant in November and, in the same month, a new record daily production of 22,223 barrels of natural gas liquids was attained. The average daily production of 15,584 barrels in 1968 was also a new high for the Empress facility.

Empress Increase: It is anticipated that the throughput of Trans-Canada Pipe Lines at the Empress plant will exceed 1.8 billion cubic feet per day in 1969. Although the rated capacity of Empress is 1.5 billion cubic feet per day, it will be possible to process the larger volumes by making relatively minor and inexpensive modifications of the plant's facilities. With the expanded gas throughput, the Empress liquids production will increase substantially in 1969.

In order to handle the increased Empress production, plans were completed in 1968 to develop a second salt cavern for propane storage at the Richardson Terminal near Regina, Saskatchewan. Work on this new installation is now underway.

This intricate piping is part of a new de-ethanizer installed in the recent expansion of Pacific's Empress Plant. The installation is used to separate ethane gas from the other constituents of the Empress throughput.

The expansion of the Company's Taylor refinery, which resulted in the enlargement of crude and catalytic cracking capacity, made possible a 14% increase in crude runs in 1968. In a new development during the year, the Company began manufacturing jet fuel at the Taylor refinery and is now able to supply the rapidly-developing market for this type of product in northern British Columbia.

A major expansion was completed last year at Pacific's Taylor, B.C. refinery, seen here by night.

Investments

In addition to its wholly-owned subsidiaries, Pacific has investments, both direct and indirect, in a number of corporations whose businesses are complementary to those of the Company.

Pacific Northern Gas: A new investment by Pacific in 1968 was the purchase for $1,500,000 of 300,000 Class "A" common shares in Pacific Northern Gas Ltd., representing a 25% equity position in that company. Pacific Northern recently completed a 369-mile natural gas pipeline system to serve the interior of British Columbia. This market area includes many newly-established paper and lumber mills, mines, and new industrial communities. In addition to being an attractive investment for Pacific Petroleums, this new pipeline facility will be another major distributor of natural gas from the Company's British Columbia fields.

Westcoast Transmission: Pacific Petroleums continues to hold its 1,722,712 shares or 25.7% interest in Westcoast Transmission Company Limited, a major gas transmission system serving British Columbia and the U.S. Pacific Northwest. At year-end, the market value of the Company's investment in Westcoast was $47,447,000 compared to the original cost of $11,735,648.

Westcoast Transmission's major interests in other companies are:

Western Pacific Products & Crude Oil Pipelines Ltd., a system which serves the oilfields of northeastern British Columbia.

Westcoast Production Company, a new exploration company with land in Alberta, British Columbia, and the Yukon and Northwest Territories.

Other Investments: Pacific Petroleums' portfolio includes shareholdings in several other companies. Among these are:

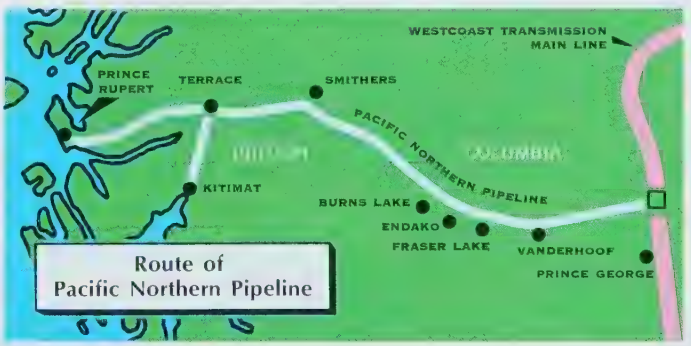
Bank of British Columbia, a chartered bank operating in Western Canada.

Riley's DataShare International, a Calgary-based computer and system service company.

Inland Natural Gas, a gas pipeline system serving interior British Columbia.

Leco Industries Limited, a plastics manufacturing company with plants in Ontario and Quebec.

Construction was completed during the past year on the 369-mile Pacific Northern Gas Ltd. pipeline in west-central British Columbia, a project in which Pacific is an investor. The picture shows the line being laid through the difficult mountain and forest terrain from the interior of British Columbia to the Pacific Coast.



STATEMENT OF CONSOLIDATED OPERATIONS AND EARNED SURPLUS

Years ended December 31, 1968 and 1967 (Canadian Dollars)

	1968	1967
Sales of crude oil, gas and refined products	$ 77,228,204	$ 71,550,878
Interest and other investment income	1,182,152	727,123
Total revenue	78,410,356	72,278,001
Deduct:		
Product and merchandise purchases	19,037,947	17,161,650
Producing, refining and selling expenses	20,014,809	19,043,179
General and administrative expenses	2,463,218	2,338,235
Interest on long term debt	7,517,315	6,841,133
Income taxes (Note 8)	348,327	267,842
	49,381,616	45,652,039
Cash generated from operations (per share, 1968 – $1.39; 1967 – $1.27)	29,028,740	26,625,962
Deduct:		
Provision for depletion	10,090,203	9,816,831
Provision for depreciation	5,346,749	5,412,490
Amortization of debt discount and expense	384,506	386,352
	15,821,458	15,615,673
Net profit from operations (per share, 1968 – $.63; 1967 – $.53)	13,207,282	11,010,289
Profit on sale of investments	923,096	–
Net profit for the year (per share, 1968 – $.67; 1967 – $.53)	14,130,378	11,010,289
Earned surplus at beginning of year	24,051,227	16,175,630
	38,181,605	27,185,919
Dividends paid (per share, 1968 – $.25; 1967 – $.15)	5,234,633	3,134,692
Earned surplus at end of year	$ 32,946,972	$ 24,051,227

STATEMENT OF CONSOLIDATED PAID-IN SURPLUS

Years ended December 31, 1968 and 1967 (Canadian Dollars)

	1968	1967
Balance at beginning of year	$199,056,821	$198,631,065
Premium on shares issued (Note 5)	329,376	425,756
Balance at end of year	$199,386,197	$199,056,821

(see accompanying notes)

Pacific Petroleums Ltd. and subsidiary companies

STATEMENT OF CONSOLIDATED FINANCIAL POSITION

December 31, 1968 and 1967 (Canadian Dollars)

NET ASSETS	1968	1967
CURRENT ASSETS		
Cash	$ 1,411,960	$ 1,092,245
Short term and demand deposits	500,000	1,230,938
Marketable securities at cost (quoted market value – 1968 – $700,000; 1967 – $815,000)	175,033	180,206
Accounts receivable	15,209,903	15,694,201
Inventories valued at the lower of cost or replacement cost		
Crude oil, refined products, and merchandise	4,927,343	4,697,971
Material and supplies	1,592,478	1,829,606
	23,816,717	24,725,167
Deduct CURRENT LIABILITIES		
Accounts payable and accrued liabilities	9,429,009	11,412,923
Long term debt due within one year	6,789,389	4,637,097
	16,218,398	16,050,020
WORKING CAPITAL	7,598,319	8,675,147
INVESTMENTS		
Westcoast Transmission Company Limited – 1,722,712 shares at cost (quoted market value 1968 – $47,447,000; 1967 – $37,469,000)	11,735,648	11,735,648
Other investments at cost	3,188,249	4,279,867
	14,923,897	16,015,515
PROPERTY, PLANT AND EQUIPMENT at cost (Note 2)	477,861,731	450,273,260
Less depletion and depreciation	124,479,068	110,009,460
	353,382,663	340,263,800
OTHER ASSETS (Note 4)	11,551,176	11,966,522
TOTAL ASSETS LESS CURRENT LIABILITIES	387,456,055	376,920,984
Deduct LONG TERM DEBT (Note 3)	134,184,313	132,901,507
NET ASSETS	$253,271,742	$244,019,477
COMMITMENTS AND CONTINGENCIES (Note 6)		
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 5)		
Authorized – 30,000,000 shares of a par value of $1.00 each		
Issued – 20,938,573 shares (1967 – 20,911,429 shares)	$ 20,938,573	$ 20,911,429
PAID-IN SURPLUS	199,386,197	199,056,821
EARNED SURPLUS	32,946,972	24,051,227
SHAREHOLDERS' EQUITY	$253,271,742	$244,019,477

(see accompanying notes)

ON BEHALF OF THE BOARD

Kelly Gibson Director

L. W. Rasmussen Director

STATEMENT OF CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

Years ended December 31, 1968 and 1967 (Canadian Dollars)

	1968	1967
Funds provided by:		
Cash generated from operations	$29,028,740	$26,625,962
Long term borrowing	9,604,085	22,980,497
Sale of property, plant and equipment	1,801,613	1,495,636
Issue of shares	356,520	468,987
Sale of investments	2,013,268	–
	42,804,226	51,571,082
Funds applied to:		
Additions to property, plant and equipment including exploration and development	29,727,916	38,854,808
Reductions of long term debt	7,121,279	6,562,333
Payment of common share dividend	5,234,633	3,134,692
Purchase of investments	1,698,500	2,252,300
Acquisition of shares of subsidiaries	98,726	409,215
	43,881,054	51,213,348
Net increase (decrease) in working capital	(1,076,828	357,734
Working capital at beginning of year	8,675,147	8,317,413
Working capital at end of year	$ 7,598,319	$ 8,675,147

NOTES TO FINANCIAL STATEMENTS

1. PRINCIPLES OF CONSOLIDATION

Included in the consolidated statements are the accounts of Pacific Petroleums Ltd. and its subsidiaries. The excess of the consideration paid for the shares of purchased subsidiaries over the net book value of the related assets at dates of acquisition is attributable to property, plant and equipment and is included therein in the accompanying statement of consolidated financial position.

2. PROPERTY, PLANT AND EQUIPMENT

	1968	1967
Crude oil and natural gas	$377,650,435	$363,203,795
Manufacturing	63,923,469	54,587,712
Transmission	10,476,666	10,354,414
Marketing	19,354,431	15,561,925
Other	6,456,730	6,565,414
	477,861,731	450,273,260
Deduct:		
Accumulated depletion	89,651,727	79,561,506
Accumulated depreciation	34,827,341	30,447,954
	124,479,068	110,009,460
Net property, plant and equipment	$353,382,663	$340,263,800

The companies follow the practice of capitalizing all costs related to the exploration for and development of oil and gas reserves and depleting such costs by a composite unit-of-production method based on total estimated reserves.

3. LONG TERM DEBT

Long term debt due after one year consists of the following:

	Maturity Date	1968	1967
6¾% Bank Loans repayable monthly	1973	$ 11,294,993	$ 7,268,335
Twenty Year 5% Subordinate Debentures redeemable and subject to annual sinking fund payments (1968 – $9,396,250 U.S.; 1967 – $9,949,250 U.S.)	1977	9,013,419	9,543,885
5½% Secured Notes subject to annual sinking fund payments commencing in 1970 ($26,000,000 U.S.)	1978	28,006,015	28,006,015
6½% Secured Notes subject to annual sinking fund payments commencing in 1971 (1968 – $8,887,000 U.S.; 1967 – $10,000,000 U.S.). Estimated $1,200,000 Canadian to be prepaid in 1969	1982	9,580,938	10,780,938
5¼% Notes repayable annually commencing in 1970 ($65,000,000 U.S.)	1985	70,115,500	70,115,500
5¼% Bank Loan repayable semi-annually (1967 – $2,000,000 U.S.)	1969	–	2,155,878
Sundry Mortgages, Notes, etc.	Various to 1988	6,173,448	5,030,956
		$134,184,313	$132,901,507

Long term obligations which are payable in United States funds are recorded in the accounts in equivalent Canadian dollars on the date the funds were borrowed. The current portion of such obligations at December 31, 1968 has been converted to Canadian dollars based on the exchange rate in effect on that date. Sinking fund requirements or retirement provisions in respect of long term debt are $11,642,000 in 1970, $12,506,000 in 1971, $11,037,000 in 1972 and $10,498,000 in 1973.

4. OTHER ASSETS

	1968	1967
Payments under natural gas processing contract less amortization	$ 4,420,491	$ 4,586,569
Work in progress at cost	2,472,374	2,755,127
Deferred debt discount and expenses less amortization	2,275,438	2,624,290
Secured loans and deferred accounts receivable, etc.	2,382,873	2,000,536
	$11,551,176	$11,966,522

5. SHARE CAPITAL

During the year the Company issued 27,144 shares for a consideration of $356,520 as follows: 7,668 shares in acquisition of shares of a subsidiary, 2,046 shares to employees under a share purchase plan, 16,000 shares to directors and officers upon exercise of share options and 1,430 shares upon exercise of share warrants (which warrants expired on March 31, 1968). Of the total consideration $27,144 was credited to share capital account and the balance to paid-in surplus.

During the year options to purchase 23,000 shares were granted to directors, officers and employees and an option to a former officer to purchase 1,500 shares was cancelled.

Shares of the Company's capital stock were reserved at December 31, 1968 as follows:

	Shares
For exercise of options outstanding to directors, officers and employees to purchase shares at prices ranging from $11.75 to $20.375 per share exercisable from time to time to July 29, 1978	
Directors and Officers	42,700
Employees	23,300
	66,000
For granting of options to officers and employees under share purchase plans	205,627
For acquisition of the remaining Class "A" shares of Bailey Selburn Oil & Gas Ltd.	31,426
	303,053

6. COMMITMENTS AND CONTINGENCIES

Various legal actions are in process involving the companies which are incident to the nature of their business. While it is impossible to ascertain the outcome of these actions, it is anticipated that any amounts which may be required to be paid or any assets involved in title disputes will not be material in relation to the companies' total assets.

The companies in the normal course of business have entered into long term agreements to lease marketing properties, buildings, etc. Such leases have approximate rentals payable in 1969 of $1,000,000 part of which will be recoverable under sub-leases.

7. DIRECTORS' AND SENIOR OFFICERS' REMUNERATION

The total remuneration paid during the year to the directors and senior officers of the Company, including all salaries, fees and contributions to pension funds, amounted to $256,263 (1967 – $302,561).

8. INCOME TAXES

Canadian provincial income taxes and foreign income taxes payable by the Company and its subsidiaries in respect of 1968 income have been provided in the accounts.

For Canadian federal income tax purposes the Companies are entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation) in amounts which exceed the related depletion and depreciation provisions reflected in the accounts. As a result no Federal income taxes are payable in respect of income reported for the current year, and at December 31, 1968 accumulated expenditures remain to be carried forward and applied against future taxable income as follows:

Drilling, exploration and lease acquisition costs	$106,000,000	(1967 – $112,000,000)
Undepreciated capital cost	$ 73,000,000	(1967 – $ 69,000,000)

The Canadian Institute of Chartered Accountants recommends that for all fiscal years commencing on or after January 1, 1968, the tax allocation basis of accounting be used for all differences in the timing of deductions for tax and accounting purposes. However, it is not general practice in the oil and gas industry to require tax allocation accounting with respect to timing differences for drilling, exploration and lease acquisition costs and this is accepted by accounting authorities outside Canada. Accordingly, no provision has been made in the accounts of the companies for income taxes deferred with respect to timing differences involving such costs. For 1968, capital cost allowances claimed will not exceed depreciation provided in the accounts.

If the tax allocation basis had been followed for all timing differences between taxable income and reported income, deferred income taxes of $5,650,000 ($5,150,000 in 1967) would have been provided and net income for the year would have been reduced accordingly. The accumulated income tax reductions relating to all timing differences in the current and prior years amount to approximately $29,200,000 at December 31, 1968.

AUDITORS' REPORT

To the Shareholders of Pacific Petroleums Ltd.

We have examined the statement of consolidated financial position of Pacific Petroleums Ltd. and subsidiary companies as at December 31, 1968 and the statements of consolidated operations and earned surplus, paid-in surplus and source and application of funds for the year ended on that date. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances.

In our opinion, these statements present fairly the financial position of Pacific Petroleums Ltd. and subsidiary companies as at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada
February 1, 1969

CLARKSON, GORDON & CO.
Chartered Accountants

Ten Year Statistical Record

	Years Ended December 31							10 Months Ended Dec. 31	Years Ended Feb. 28 or 29	
	1968	1967	1966	1965	1964	1963	1962	1961	1961	1960
FINANCIAL (In Thousands of Canadian Dollars Except Per Share Figures)										
Cash Generated from Operations	$ 29,029	$ 26,626	$ 20,982	$ 19,028	$ 17,757	$ 16,775	$ 14,143	$ 8,544	$ 7,229	$ 3,792
Depletion, Depreciation and similar charges	15,822	15,616	14,156	13,302	12,549	12,303	11,108	7,527	9,722	7,366
Net Operating Profit	$ 13,207	$ 11,010	$ 6,826	$ 5,726	$ 5,208	$ 4,472	$ 3,035	$ 1,017	$ (2,493)	$ (3,574)
Minority Interest	–	–	–	266	788	788	–	–	–	–
Profit on Sale of Investment	923	–	–	–	–	–	–	–	–	–
Net Profit (Loss)	$ 14,130	$ 11,010	$ 6,826	$ 5,460	$ 4,420	$ 3,684	$ 3,035	$ 1,017	$ (2,493)	$ (3,574)
Per Share:										
Cash Generated from Operations	$ 1.39	$ 1.27	$ 1.00	$ .91	$ .85	$ .81	$ .80	$ .57	$ .49	$ .46
Net Profit (Loss)	.67	.53	.33	.26	.21	.18	.17	.07	(.17)	(.44)
Net Assets before Long Term Debt	18.50	18.02	16.88	16.59	14.76	13.80	12.55	12.33	12.66	13.63
Shareholders' Equity	12.10	11.67	11.29	10.96	10.70	10.49	10.05	9.12	9.03	7.50
Total Net Sales:										
Crude Oil	$ 21,171	$ 20,285	$ 18,220	$ 17,329	$ 17,475	$ 16,948	$ 13,183	$ 9,616	$ 9,844	$ 8,020
Natural Gas	15,555	13,860	11,362	10,457	9,357	7,989	7,506	4,568	4,050	1,755
Manufactured Products	36,817	33,769	28,666	23,872	14,722	8,570	7,207	6,019	4,693	1,179
Other	3,685	3,637	3,309	3,073	884	–	–	–	–	–
TOTAL	$ 77,228	$ 71,551	$ 61,557	$ 54,731	$ 42,438	$ 33,507	$ 27,896	$ 20,203	$ 18,587	$ 10,954
Working Capital	$ 7,598	$ 8,675	$ 8,317	$ 16,958	$ 3,714	$ 3,390	$ 3,323	$ 1,646	$ 1,366	$ 1,883
Net Assets before Long Term Debt	$387,456	$376,921	$352,158	$346,102	$307,375	$286,912	$222,803	$183,718	$187,077	$111,130
Number of Shares Issued (000's)	20,939	20,911	20,868	20,857	20,831	20,802	17,759	14,906	14,776	8,151
Number of Shareholders	42,673	41,128	39,250	38,814	39,200	33,709	30,919	30,259	30,973	31,589
OPERATIONS										
Daily Production:										
Oil and Liquids	42,170	40,711	39,806	38,231	31,366	20,636	16,730	14,585	12,294	9,661
Natural Gas (mcf.)	285,000	259,000	216,000	194,000	175,000	159,000	166,000	139,000	117,000	69,000
Net Acreage (000's)										
Total	10,408	7,982	7,874	6,365	5,384	4,941	3,999	4,606	5,155	3,428
Arctic and N.W.T.	6,099	3,079	2,736	1,145	–	–	–	–	–	–
Net Proven Acreage	372	371	339	254	232	213	179	158	155	89
Sales Volumes (Million gals.)										
Gasolines and Distillates	108	89	89	77	69	52	38	38	32	26
Natural Gas Liquids	257	262	255	196	99	39	36	22	16	13
TOTAL	365	351	344	273	168	91	74	60	48	39
Crude Oil Refined BPD	9,017	8,537	7,403	6,360	5,183	3,250	3,940	2,676	2,693	2,500
Capital Expenditures ($000's)	29,728	38,855	28,170	25,854	25,802	60,305	11,959	9,051	14,837	10,577
Number of Employees	848	798	743	688	606	520	370	400	372	388

NOTE: In some instances figures for earlier years have been changed from those previously published to reflect subsequent changes in accounting policies.

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Corporate Information

Pacific Petroleums Ltd.

Incorporated under the Laws of the Province of British Columbia

Executive Office

320 - 9th Avenue S.W.
P.O. Box 6666
Calgary, Alberta, Canada

Registered Office

406 Mercantile Bank Building
540 Burrard Street
Vancouver, B.C.

Principal Subsidiaries (wholly or substantially owned)

BAILEY SELBURN OIL & GAS LTD.
PETROLEUM TRANSMISSION COMPANY
QUEBEC PROPANE INC.
VENEZUELAN CANADIAN OILS, C.A. (Venezuela)
VENEZUELAN PACIFIC PETROLEUMS, C.A. (Venezuela)
WESTERN NATURAL GAS COMPANY, INC.
MIDLAND INDUSTRIES LIMITED

Stock Exchange Listings

NEW YORK, TORONTO, MONTREAL, VANCOUVER,
CALGARY AND PACIFIC COAST STOCK EXCHANGES

The Shares of Pacific Petroleums Ltd. are exempt from the United States Interest Equalization Tax and in the trading of these Shares neither vendors nor purchasers are liable for this tax.

Transfer Agents

SHARES

Montreal Trust Company
Vancouver, Calgary, Toronto and Montreal

The Chase Manhattan Bank
New York, New York

Bank of America National Trust
and Savings Association
Los Angeles, California

DEBENTURES

Canada Permanent Trust Company
Toronto and Vancouver

Bankers Trust Company
New York, New York

Registrars

SHARES

National Trust Company, Limited
Vancouver, Calgary, Toronto and Montreal

Manufacturers Hanover Trust Company
New York, New York

Security First National Bank
Los Angeles, California

DEBENTURES

Canada Permanent Trust Company
Toronto and Vancouver

Bankers Trust Company
New York, New York

Auditors

CLARKSON, GORDON & CO., Calgary, Alberta, Canada

PACIFIC PETROLEUMS LTD. / P.O. Box 6666 • Calgary, Alberta